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Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the report of the Joint Inspection Unit entitled "Management audit review of outsourcing in the United Nations and United Nations funds and programmes" (JIU/REP/2002/7).

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MANAGEMENT AUDIT REVIEW OF OUTSOURCING IN THE UNITED NATIONS AND UNITED NATIONS FUNDS AND PROGRAMMES

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ACRONYMS

ACABQ	Advisory Committee on Administrative and Budgetary Questions
CTBTO	Comprehensive Nuclear-Test-Ban Treaty Organization
ECA	Economic Commission for Africa
ECLAC	Economic Commission for Latin America and the Caribbean
ESCWA	Economic and Social Commission for Western Asia
FCSD	Facilities and Commercial Services Division
HCC	Headquarters Committee on Contracts
IAPWG	Inter-Agency Procurement Working Group
ICC	International Computing Centre
IMIS	Integrated Management Information System
ITSD	Information Technology Services Division
JIU	Joint Inspection Unit
LCC	Local Committee on Contracts
OHRM	Office of Human Resources Management
OIOS	Office of Internal Oversight Services
RFP	Request for Proposals
RONA	Regional Office for North America (UNEP)
UN-Habitat	United Nations Human Settlements Programme
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNHQ	United Nations Headquarters
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNOG	United Nations Office at Geneva
UNON	United Nations Office at Nairobi
UNOV	United Nations Office at Vienna
WFP	World Food Programme

EXECUTIVE SUMMARY: OBJECTIVE, CONCLUSIONS AND RECOMMENDATIONS

OBJECTIVE:

To establish the extent to which the outsourcing practices in 1999 and 2000 by the United Nations Secretariat and the United Nations funds and programmes were consistent with the policy directives set forth in General Assembly resolution 55/232 of 23 December 2000 (see annex I to this report).

EXECUTIVE SUMMARY

A. Since the 1997 Joint Inspection Unit (JIU) report on the challenge of outsourcing for the United Nations system, outsourced operations, as distinct from standard procurement, undertaken by the United Nations Secretariat and its funds and programmes have not evolved significantly in value and scope. The operations remain, as in the past, a relatively small proportion of the organizations' financial resources. The services and activities outsourced also continue to be concentrated in specific areas such as information and communication technologies and systems as well as in facilities and site management functions. The Inspectors find no trend suggesting a possible major shift in the near future in the current pattern of outsourcing services and activities.

B. In terms of policy and managerial arrangements, the Organization's outsourcing practices are still in a transition phase. Many of the weaknesses previously identified by JIU and the Office of Internal Oversight Services (OIOS) reports on the subject are still in the process of being rectified. Furthermore, the Secretary-General's 1999 policy guidelines on outsourcing practices, endorsed by the General Assembly, represent an important policy framework that has hitherto been lacking specifically for outsourced contracts. However, the new policy measures are not yet fully operational, as noted by the Inspectors in reviewing contract documents and discussing with officials of the organizations. The Inspectors therefore conclude that the new policy guidelines, together with a more distinctive concept of outsourcing as proposed in this report, should be incorporated in the relevant policy instruments of the organizations.

C. Furthermore, contract documents reviewed by the Inspectors were found to be dissimilar in formulation and scope of provisions to an extent not justified by the special nature of each outsourced operation, and notwithstanding the existence of standard general conditions for contracts. Contract formats used by Secretariat Departments differed from those used by some programmes and funds. The Inspectors conclude that the United Nations procurement policies and procedures should be further reinforced with new standard clauses applicable specifically to the outsourcing modality of procurement, and incorporating the concerns reflected in General Assembly resolution 55/232 cited above.

D. One area found to be in need of priority attention concerns improved monitoring and management controls over outsourced contracts to ensure that contractors deliver the efficiency and cost benefits to be expected from outsourcing practices. The inclusion in contracts of performance and quality metrics against which service delivery can be measured and evaluated would go some way in facilitating contract monitoring and management. However the Inspectors also believe that more contract management courses for programme managers most exposed to the outsourcing option would be a worthwhile investment.

RECOMMENDATIONS

RECOMMENDATION 1

Working concept of outsourcing for United Nations and its funds and programmes

The executive heads of the organizations concerned should ensure that outsourcing arrangements with commercial suppliers are based on the following distinctive elements:

(*a*) The managerial processes of the service or activity concerned are owned and controlled by the contractor;

(*b*) Resulting from (*a*) above, the associated human resources (personnel performing the outsourced services), even while working on the

organizations' premises, fall under the responsibility of, and report to, the vendor and not the host organizations;

(*c*) Outsourcing, unlike other forms of procurement, is geared mostly to the provision of services to meet the organizations' internal needs or substantive programme requirements; it could also include the supply of goods (e.g. computer equipment, photocopying machines or stationery) linked to the outsourced services in question, subject to (*d*) below;

(*d*) An outsourcing arrangement typically implies a business relationship with a supplier lasting one year or more as a general rule (para. 17).

RECOMMENDATION 2

Common services, national execution of projects, and outsourcing

(*a*) Although common services operated within the United Nations system are conceptually a form of outsourcing, the organizations' programme managers responsible for common services and/or outsourcing practices should restrict the practical use of the term "outsourcing" to contractual relations with commercial vendors;

(*b*) Likewise, while the practice of contracting with governmental and non-governmental institutions in the Member States for the execution of technical cooperation, humanitarian and other projects and programmes would also qualify to some extent as outsourcing, this term should not be used for such operational activities for development, which should continue to be referred to more appropriately as: "national execution", "national capacity-building", "institution building" and "strengthening"(para. 23).

RECOMMENDATION 3

Strengthening outsourcing policy guidelines

The Secretary-General should reinforce existing outsourcing policy guidelines with the following additional measures:

(*a*) The General Assembly's policy directives on outsourcing practices contained in resolution 55/232, and related policy guidelines on the same subject, should be incorporated in the relevant policy documents, especially procurement manuals and general conditions for contracts for services, including those of the funds and programmes (para. 25);

(*b*) Services and activities to be outsourced should be made explicit in the programme budget narrative and resources should be approved by the competent policy-making organs for the service or organizational unit concerned (para. 46).

RECOMMENDATION 4

Standardized due diligence procedures

The Inter-Agency Procurement Working Group (IAPWG) should aim, inter alia, through shared databases, to standardize and generalize the application of due diligence procedures within the United Nations system, using relevant provisions of the United Nations Children's Fund (UNICEF) Supply Manual as a model (para. 51).

RECOMMENDATION 5

Value for money and performance measures

(*a*) Programme managers should understand the "lowest acceptable bid" rule in the United Nations Procurement Manual to cover also the "best value for money" principle, and the World Food Programme (WFP) might wish to share with other organizations in IAPWG the relevant provisions of its Non-Food Procurement Manual on the "best value" award for the competitive Request for Proposals (RFP) process (para. 54);

(*b*) IAPWG should seek agreement on standard contract provisions emphasizing cost-effectiveness and efficiency in outsourced operations, depending on the nature of the service or activity being outsourced, especially for high-value contracts, and the said provisions should specify as clearly as possible the various measures against which the contractor's performance could be measured (para. 58).

RECOMMENDATION 6

Enhanced safety and security measures

(*a*) The safety and security factor should be among the risks to be assessed during the pre-contract phase and periodically thereafter, particularly with respect to outsourcing arrangements involving the regular presence on United Nations premises of a significant number of the supplier's personnel;

(*b*) The Secretary-General and executive heads of the funds and programmes should institute as general policy the requirement that contractors provide to the Security and Safety Services all relevant identity details of their personnel already assigned, or to be assigned to outsourced duties within the organizations, subject to national legislation at each duty station pertaining to individual privacy and data protection;

(*c*) The Security and Safety Services should perform more rigorous and regular checks on contracted personnel and any additional costs should be appropriately reflected in the overall costs of the outsourced operation, or charged to the contractors in proportion to the size of their personnel on United Nations premises (para. 62).

RECOMMENDATION 7

Tax-exemption status of the United Nations

The Secretary-General should review with competent national authorities all cases in which the levying of taxes on the organizations for their outsourced services might be in contravention of the relevant provisions of the Convention on the Privileges and Immunities of the United Nations, and report the outcome to the General Assembly (para. 68).

RECOMMENDATION 8

Monitoring, evaluation, and certification system specific to outsourced contracts

IAPWG should consider disseminating among its members the evolving experience of the United Nations Procurement Division in the use of its new formats for monitoring, evaluating and certifying supplier performance under outsourced contracts (para. 73).

RECOMMENDATION 9

Training programme in contract monitoring, management and evaluation

The Secretary-General and executive heads of the funds and programmes should budget adequate resources for training programme managers at all duty stations in contract oversight, giving priority to those organizational units more significantly exposed to the outsourcing option by the nature of their activities (para. 77).

INTRODUCTION

1. JIU conducted this review in response to General Assembly resolution 55/232 of 23 December 2000 contained in annex I to this report. In operative paragraph 6 of this resolution, the Assembly requested

> the Joint Inspection Unit to conduct a management audit review of outsourcing in the United Nations and the United Nations funds and programmes in accordance with existing practice and to report thereon to the General Assembly at its fifty-seventh session.

2. It may be recalled that JIU had earlier addressed the subject of outsourcing on a system-wide basis in its 1997 report entitled "The challenge of outsourcing for the United Nations system",[1] which provided an in-depth analysis of the issues set forth in the above-mentioned General Assembly resolution. OIOS also covered this topic in its 1997 report: "Review of outsourcing practices at the United Nations",[2] the recommendations of which were in line with those of the JIU report. JIU and OIOS cooperated very closely in the preparation of their respective reports.

3. Pursuant to General Assembly resolution 52/226B of 27 April 1998, the Secretary-General subsequently issued a report on outsourcing practices, establishing the Organization's

> basic policy and guidelines to be followed in considering the use of outsourcing, having taken fully into account the report of the Joint Inspection Unit (A/52/338, annex) entitled 'The challenge of outsourcing for the United Nations system' and the report of the Office of Internal Oversight Services (A/52/813, annex) on the review of the implementation of procurement reform.[3]

4. In preparing this report, the Inspectors have accordingly taken into account the above-mentioned outsourcing policy and guidelines endorsed by the General Assembly in resolution 54/256 of 7 April 2000, as well as the Unit's own aforementioned 1997 report, the relevant contributions by OIOS, and the views of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)[4] on the various reports on outsourcing since 1997.

5. More specifically, this review is guided in its scope, methodology and substance by General Assembly resolution 55/232 mentioned in paragraph 1 above. It seeks to determine if, and to what extent, outsourced operations conducted in 1999 and 2000 by the United Nations Secretariat and the United Nations funds and programmes have been consistent with the policy directives contained in the resolution in question regarding, in particular, the reasons, goals and criteria for outsourcing. As such, the scope of the report is limited to the United Nations Secretariat and to the funds and programmes as well as to outsourced contracts initiated or under way in 1999 and 2000, as specified in the General Assembly resolution.

6. The report was prepared on the basis of analysis of replies to a JIU questionnaire prepared for this report and a detailed audit review of contract documents and other information covering over 100 outsourced contracts, listed in annex II, still in force in 1999 and 2000. In addition, the Inspectors discussed their preliminary findings with officials responsible for outsourcing matters and contracts in the Secretariat and the funds and programmes. Consistent with the General Assembly frame of reference for the report, the Inspectors have focused their inquiry on the contractual and managerial phases of outsourcing procedures.

7. A general finding of the report is that the organizations concerned are still in the process of adapting to the new outsourcing policy guidelines established by the General Assembly in 2000 in its resolution under reference, which as earlier noted, was based essentially on the Secretary-General's basic policy and guidelines on this subject. Although in their replies to the JIU questionnaire and in discussions with the Inspectors, officials of the organizations indicated that their outsourcing practices were broadly in line with General Assembly directives, the Inspectors' audit review found the overall picture rather mixed, as will be

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[1] JIU/REP/97/5; A/52/338.

[2] A/51/804.

[3] A/53/818 of 4 February 1999.

[4] See ACABQ reports: A/53/942 of 6 May 1999 and A/55/479 of 13 October 2000 on outsourcing practices.

shown later, mostly due to the relatively short, one-year transition period from the date of the General Assembly resolution (December 2000) to the date on which JIU undertakes this review.

8. Thus, while the Inspectors observed a general improvement trend, they still found some of the weaknesses spotted by JIU and OIOS in 1997 in outsourcing contracts and practices. Indeed, as will be seen below, even the very concept and definition of outsourcing remain problematic, while the terminology and distinctive character of outsourcing, in relation to standard procurement, are hardly explicit in the organizations' policy documents, especially the Financial Regulations and Rules, Procurement Manuals, and general conditions for contracts, RFPs and invitations to bid. The Inspectors record their appreciation to the organizations and procurement officials concerned by this subject for their valuable cooperation in the preparation of the present report.

I. PERSPECTIVE

9. This chapter sets in perspective outsourcing practices by the United Nations and its funds and programmes. Firstly, the Inspectors endeavour to clarify the concept in order to achieve a more or less common understanding across the organizations of the key elements of outsourcing and of how it may or may not differ, within the United Nations context at least, from other closely related concepts like standard procurement, service contracts, subcontracting and common services. The Inspectors next examine the subject within the existing procurement policy context of the organizations. Also discussed are the main types of activities or services mostly outsourced, with an approximate estimation of their current financial value and percentage of the budgets of the organizations concerned. By so doing the Inspectors hope to enable the Member States to form a more objective picture than currently available of the relative scope of outsourcing practices.

A. The concept

10. The Secretary-General's above-mentioned report on policy guidelines for outsourcing includes in paragraph 8 the following definition of the subject:

> Outsourcing is contracting with a third party to provide non-core activities and services (including, where applicable, related goods), which activities and services have been or could be provided by United Nations staff. For purposes of this report, non-core activities and services refer to support-type activities and services such as–but not limited to–accounting; auditing (internal); archives; book shop/gift shop; building maintenance; cleaning services; food services/catering; ground/garden maintenance; interpretation; information systems/information technology; mail/pouch; medical services; printing/publishing; recruitment; security; staff counselling/outplacement; training; translation; travel service; transportation; warehousing; and other similar tasks.

11. In the same paragraph, the Secretary-General's report excludes from the definition of outsourcing the simple procurement of goods; the replacement or supplementation of staff by non-regular staff; contractual relations with individual consultants; labour contracts or one-time service assignments given to corporate or institutional contractors. The report further emphasizes that

> the establishment and provision of common services among the various United Nations funds, programmes and agencies would constitute a form of outsourcing.

12. This definition tallies that of JIU in its earlier report on this subject. This clarification of the concept is a definite improvement over the situation described by OIOS in its 1997 report, which noted the need to demarcate outsourcing from other practices such as purchase orders, special service agreements, or supplementation of the organization's human resources, generally referred to as forms of outsourcing.

13. However, it should be pointed out that in its comments on the Secretary-General's policy guidelines on this subject, ACABQ observed that the categorization as "core" and "non-core" of services that might be eligible for outsourcing had

> the potential for creating endless debate and disagreement within the Secretariat and among Member States as to whether, based on its classification, an activity should or should not be contracted out. Accordingly, the Committee recommends that such classification be dispensed with.[5]

14. Furthermore, not all the funds and programmes, especially UNICEF and the United Nations Development Programme (UNDP), are in full agreement with the Secretary-General's and the JIU definitions of the subject. Although annual contracts of UNDP with KPMG, an international accounting firm, to provide audit services covering its field offices in the Arab States and in the Asia and the Pacific region, would qualify as outsourcing or at least partial outsourcing under the Secretary-General's standard definition, UNDP believes that it is more a form of subcontracting than outsourcing "because the contract is not a substitute to UNDP's core internal audit function".[6] In the UNDP view, which is shaped by

[5] A/53/942, para. 6.

[6] UNDP reply to the JIU questionnaire for this report.

some private-sector practices, outsourcing is a contractual relationship where an external entity takes responsibility for performing all or part of a function presently done in-house but which continues to be managed by the responsible unit.

15. In the international business community, outsourcing can take several forms. As noted by two private-sector specialists and authors on the subject,

> outsourcing is itself a relatively new term and can be applied to many different types of commercial relationships between purchasers and suppliers–co-sourcing, subcontracting, partnering, joint ventures, third-party contracts, facilities management, managed services, management buyouts, strategic insourcing. Ultimately, out-sourcing is merely a way of getting something done.[7]

16. The Inspectors believe that it matters to have a commonly accepted understanding among the organizations of what constitutes or does not constitute outsourcing because of its implications for drawing up and managing outsourcing contracts (as distinct from other contracting or procurement modalities), accounting for the results and related financial resources of outsourced services, and shielding the organizations against potential risks generally associated with this form of service delivery.

17. For that reason the Inspectors propose that United Nations system outsourcing arrangements with a commercial supplier should be identified on the basis of the following distinctive elements which could be applicable to outsourcing for internal administrative needs as well as for broader programme needs:

(*a*) The managerial processes of the service concerned are owned and controlled by the contractor. In the case of standard procurement, by contrast, those processes are managed in-house by the host organization;

(*b*) Resulting from (*a*) above, the associated human resources (personnel performing the outsourced services), even while working on the organizations' premises, fall under the responsibility of the vendor and not of the host organizations which, however, should focus their attention on contract monitoring and management;

(*c*) Outsourcing, unlike other forms of procurement, is geared mostly to the provision of services to support the organizations' internal operations or substantive programme requirements; the contracting process aims to achieve pre-defined and agreed standards of efficiency and effectiveness, which ideally should be measurable. It could also include the provision of goods (e.g. computer equipment, photocopiers or stationery) linked to the outsourced services in question, subject to (*d*) below:

(*d*) An outsourcing arrangement should imply a business relationship with a supplier generally lasting one year or more (**see recommendation 1**).

18. The above distinctive elements, while not necessarily exhaustive, should at least complement the existing definition of the subject for operational purposes, and settle the debate on the meaning of outsourcing. Existing practices, which do not satisfy the above four identification criteria, especially the first two, may not qualify as "outsourcing" and should be treated as general procurement or service contracts under existing policies and procedures.

19. Furthermore, as noted by JIU in its previous report and also as underlined in the Secretary-General's policy guidelines on the subject, the operation of common or joint services within the United Nations system is also, conceptually, a form of outsourcing, and the outsourcing characteristics specified above would equally apply to common services, with one organization or central entity serving as supplier and the others as recipients or customers of services.

20. However, in accordance with United Nations system terminology and practices, outsourcing generally applies to contractual business relations with commercial service providers or contractors. The Inspectors observe moreover that common services have acquired an identity of their own and are regulated by distinct legislative and policy directives with hardly any bearing on the organizations' general procurement and outsourcing policies, excepting cases where a commercial supplier is used to deliver a common service, as discussed below.

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[7] Charles L. Gay and James Essinger, *Inside Outsourcing: Managing Strategic Sourcing* (London, Nicholas Brealey Publishing, 2000), p. 5.

21. Additionally, while common services intersect with commercial outsourcing in a number of areas (e.g. the outsourcing of a common service, such as the travel agency and stationery services at Headquarters or the various common services outsourced by the United Nations Office at Nairobi (UNON) to commercial providers; the same requirement for enhanced efficiency and effectiveness; or common pursuit of cost savings), they diverge from typical outsourcing in other equally important areas.

22. For example, the international character of the organizations as well as safety and security considerations are not at issue; the bid process, although sometimes used, is less common; detailed, legally enforceable contracts are replaced by memorandums of understanding or service agreements although the lead organization piloting an outsourced common service would normally apply its commercial outsourcing procedures; and significantly less time and effort are invested by service recipients in controlling contract implementation processes. In addition, as aptly observed by the Economic and Social Commission for Western Asia (ESCWA), common services may be more cost-effective than commercial outsourcing because they provide a mechanism for inter-agency sharing of staff costs. The provision of services on a cost-recovery basis by one United Nations system organization to another under a bilateral arrangement would fall under a "service agreement" as distinct from a typical outsourced modality applicable to commercial providers.

23. Further still, as can be observed in annex II, some of the materials and data provided by a few organizations, especially the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat), included project execution contracts awarded to national institutions in the context of operational activities for development. Excepting cases where private companies are engaged to implement such activities, these would normally qualify as national execution, national capacity-building or institution building and strengthening, rather than as outsourcing, as defined above. The term "outsourcing" should, therefore, not be used equally for operational activities for development or humanitarian and related operations designed to strengthen institutional capacities in the recipient countries. Accordingly, use of this term should be restricted in practice to contractual relations with private-sector suppliers (**see recommendation 2**).

B. Policy instruments

24. The Inspectors reviewed the organizations' financial regulations and rules as well as procurement policies and procedures. They also examined, in the case of the United Nations, existing general conditions for contracts and related texts. They found that although these documents hardly refer to outsourcing as such, they are nevertheless legally sound and generic enough to cover standard contractual requirements that might be applicable to outsourcing as defined above. In discussions with the organizations' officials and in replies to the JIU questionnaire for this report, the Inspectors were informed that existing procurement policies and procedures were adequate for outsourcing, and that no problems had been encountered in the application of those policies and procedures to outsourcing practices.

25. The Inspectors take the view that since the General Assembly has established in resolution 55/232 a new policy for outsourcing operations, which is elaborated in greater detail in the Secretary-General's own policy guidelines on the subject, these new provisions should accordingly be included as appropriate in the organizations' relevant policy instruments, especially procurement manuals and general conditions for contract for services. In its comments on the draft of this report, the United Nations Procurement Division states that these concerns are being addressed in the context of the IAPWG and the revised Procurement Manual. UNDP also reports that it plans to develop a separate form for outsourcing and guidelines for carrying out a cost-benefit analysis for outsourced contracts, and to incorporate these new features in its Procurement Manual under a separate chapter on outsourcing (**see recommendation 3 (*a*)**).

C. Pattern

26. In order to enable the Member States to have a clear picture of the pattern of outsourcing in 1999 and 2000 by the organizations concerned, the services can be classified as follows:

(*a*) **Constitutional:** Core substantive services and activities more directly responsive to the organizations' charter or statutory objectives (e.g.

peace and security, economic and social development, humanitarian operations);

(*b*) **Business processes:** Administrative functions generally supportive of category (*a*) above (e.g. human and financial resources management, information technologies and systems, travel agency and stationery services, internal audit, public information, mail/pouch operations, printing and publications services, etc.);

(*c*) **Infrastructural:** Facilities and site management such as buildings and grounds maintenance, safety and security, cafeteria, garage, etc.);

(*d*) **Commercial**: Visitors' services, bookshop/gift shop, United Nations Postal Administration, news-stand, etc.).

27. Analysis of the information supplied to the Inspectors on about 100 outsourced contracts concluded or still active in 1999 and 2000 (see annex II) reveals that most of these covered services in groups (*c*) and (*d*) above, and quite a few related to services in group (*b*). However, in this category, information technology and communication services accounted by far for most of the contracts (18 in total) followed by printing, photocopy and stationery services. Services outsourced in group (*a*) were rare and mostly concerned technical cooperation projects supported by the UNEP and UN-Habitat. This analysis confirms that the outsourcing pattern in 1995, as illustrated in the previous JIU report on the subject, has not changed over the past seven years or so, as outsourcing remains concentrated in administrative support and general services. This pattern is also broadly consistent with similar experiences in comparable organizations in the public and private sectors, as further illustrated in table 1 in the next chapter.

D. Financial value

28. The Inspectors endeavoured to estimate the total financial value of outsourced contracts in 1999 and 2000 for the organizations covered in this report. However, the exercise proved difficult because, as noted earlier, outsourcing is not considered separately from standard procurement activities. For example, while the United Nations Headquarters Committee on Contracts (HCC) reviewed 529 procurement contracts valued at US$ 1.3 billion in 2000, the Committee officials could not estimate the number of those contracts that specifically covered outsourcing. They stated that most of the contracts submitted to HCC for review did not relate to outsourcing as officially defined.

29. The combined value of the sample contracts examined by the Inspectors was about US$ 66 million for 1999 and 2000 combined. However, the Inspectors could not ascertain the relative importance of this figure for all outsourced contracts during the two years considered in the absence of accurate information on such contracts as distinct from other forms of procurement. The likelihood is that the financial value of outsourced services meeting the definition and distinctive characteristics discussed earlier in this report may not be that significant. However, it may be worth noting that services outsourced by the Information Technology Services Division (ITSD) in 1999 and 2000 were valued at some US$ 21 million followed by the Facilities and Commercial Services Division (FCSD), with US$ 11 million. The two service areas in question are also the most commonly outsourced in other comparable organizations and the global business community.

30. In general therefore outsourcing practices by the United Nations and its funds and programmes do not appear to differ from those obtaining elsewhere within the United Nations system or in other similar organizations. In terms of financial value and scope, the practice is not significant either, representing a relatively minor proportion of the organizations' activities and budgets during the two years under review. This conclusion is, however, not a judgement by the Inspectors on whether or not the current level or pattern of outsourcing is satisfactory.

II. RATIONALE

31. The Inspectors sought to establish whether the reasons given by the programme managers to justify their recourse to outsourcing were consonant with the "four basic reasons for outsourcing" stipulated in operative paragraph 1 of the General Assembly resolution under reference. The four reasons are:

(*a*) To acquire technical skills not readily available within the Organization, including accessing state-of-the-art technologies and expertise or acquiring needed flexibility to meet quickly changing circumstances;

(*b*) To achieve cost savings;

(*c*) To provide a source more effectively, efficiently or expeditiously;

(*d*) To provide an activity or service not needed on a long-term basis.

32. Annex II to this report summarizes the reasons stated by the programme managers for their outsourced operations in 1999 and 2000. By far the most recurrent reason is (*a*) above: to acquire technical skills not available internally or to acquire needed flexibility for services of a fluctuating nature; followed by (*d*): to provide a service not needed on a permanent or long-term basis. The pursuit of cost savings, cost-effectiveness and efficiency together come in third place. Other reasons stated include, for example, the lack of budgeted posts; the need to complement internal resources; the fact that the activity or service concerned had never been performed internally before, or that the service or activity in question was outside the organization's competence.

33. In most cases therefore the replies seem consistent with General Assembly directives. However, the Inspectors would not subscribe to the view of some programme managers that a service, such as conference room set-up facilities, never before provided internally, should remain permanently outsourced. Such justification for outsourcing is inconsistent with the above policy guidelines. The rationale for outsourcing must be weighed periodically in the light of established policy and new factors, as further discussed in the next chapter.

34. Further, when requested to state the cost savings and other benefits derived from outsourcing in 1999 and 2000, the organizations' replies (annex II) were very much less spontaneous and precise than their rationale for outsourcing. The Economic Commission for Latin America and the Caribbean (ECLAC), ESCWA and the United Nations Office at Vienna (UNOV) were mostly able to provide hard, quantitative evidence of the cost benefits or savings accruing to them from this practice. Vague replies such as "**administrative efficiencies**" can be difficult to credit as benefits without more precise substantiation.

35. The information contained in annex II also suggests that cost benefits likely to flow from outsourcing may be greater in locations such as the New York metropolitan area and field duty stations where the local salary rates are lower than United Nations salary scales. The replies of ECLAC and ESCWA are, for example, illustrative of this point. Budget constraints in the organizations may also be compelling them to increase outsourcing, again because of the opportunities it affords for reducing staff costs, which represent the most significant expenditure object of programme support and administrative budgets of the organizations.

36. On the other hand, the General Assembly resolution under reference provides that one of the goals of outsourcing should be "to avoid a possible negative impact on staff". While this injunction could be construed as conflicting with the cost-saving objective, also stated in the same resolution, the Inspectors believe that this is not the case, since adverse effects on staff can be minimized and perhaps even averted by carefully planning their redeployment to other functions or considering attrition solutions during the pre-contract processes to be discussed later. For example, the Inspectors were informed that such an approach had been successfully applied to the outsourcing of the messenger service at Headquarters, and ECLAC did likewise in outsourcing some of its services, leading to measurable cost savings.

37. In general, however, the Inspectors could not discern a rational system for deciding among the following options:

(*a*) "Insourcing" or providing a service in-house;

(*b*) Using a common service mechanism to provide the service or a combination of this modality with outsourcing;

(*c*) Contracting with a commercial service provider.

The rationale and pattern of existing outsourcing practices seem to be based on pragmatic choices by individual organizations and their programme managers. It could be helpful to establish standard rules of thumb whereby activities with limited staff career development horizons, such as facilities and site management functions, could automatically be eligible for commercial outsourcing.

38. At the next level would be administrative and technology functions requiring knowledge of the organizations' policies and procedures, and involving in some cases the interpretation and application of regulations and rules, but which could be simplified by the application of common information technology solutions and systems. This latter group would be the area par excellence for organizing common services, especially for co-located organizations. At Headquarters, for example, some services in this group are operated as common services (e.g. payroll, medical service, staff insurance, travel agency services), others are sourced internally (e.g. recruitment, accounts processing, management information systems), while others are sourced commercially by one or more organizations (e.g. printing and publications, internal audit). Table 1 illustrates the case for a more rational approach to decision-making regarding the choice of service-delivery modes.

Table 1. Hierarchy of organizational functions and desirable performance modalities

FUNCTIONS	MODALITY	SOME ADVANTAGES
1. Constitutional/ substantive functions	Performed internally or through joint programmes, e.g. Joint United Nations Programme on HIV/AIDS (UNAIDS), integrated approaches under the United Nations resident coordinator system at country level.	Best performed by regular staff to ensure loyalty and commitment, integrity of norms and standards, and institutional memory.
2. Business process functions	Common services within United Nations system for co-located organizations and entities, including in some cases outsourcing of common services (e.g. International Computing Centre (ICC), travel agency services, provision of stationery and supplies, or UNDP/United Nations Population Fund (UNFPA)/United Nations Office for Project Services (UNOPS) joint services at Headquarters).	Cost savings through sharing of staff costs and benefits of economies of scale; building synergies and standardized approaches within the common system; implementation of General Assembly resolutions on common services and relevant provisions of relationship agreements.
3. Infrastructural functions	Typically outsourced to commercial providers, except for some functions like safety and security in the United Nations.	Limited staff career advancement opportunities; United Nations salary scale is not appropriate for this category of function; local labour market generally more cost-effective.
4. Commercial activities or services (where not linked to category of functions in #1 above)	Typically outsourced to commercial providers.	Organizations have non-commercial mandates, competence and outlook.

39. In UNDP, for example, the reasons stated for subcontracting internal audit services to KPMG include: to help expand available resources and the UNDP audit capacity and coverage and to raise credibility with donors by the use of a reputed international accounting firm. However, obtaining services at lower costs is not without some drawbacks. UNDP and other entities observe that contractors generally use young or low-level personnel who are poorly paid and lack consistent motivation, frequent personnel turnover being one of the outcomes of this situation.

40. The host departments invest time and effort in training and retraining contractor personnel to familiarize them with the organizations' policies and procedures, thus pointing up the hidden and quality costs, which may be difficult to anticipate in the outsourcing of services. In the light of these shortcomings, it may be wondered whether a common service solution, such as using the services and credibility of OIOS to provide the same services on a cost-recovery basis, would not prove more cost-effective than current UNDP contracts with KPMG. At any rate, some of the problems noted in this paragraph could be addressed up front, during the pre-bid and bid processes discussed below.

III. PRE-CONTRACT PHASE

41. The pre-contract phase of an outsourcing procedure would normally include the pre-bid and bid processes involving the key preparatory steps leading to the conclusion of a contract with a supplier. This phase provides the main opportunity for the organizations to address effectively the other concerns stated in the General Assembly resolution in question. It is also at this stage that the organizations should define the outsourcing objectives being pursued, specify the scope and level of services to be provided, as well as quality standards, performance measures and evaluation criteria or benchmarks. Additionally, expected outsourcing benefits and direct and indirect costs must also be known and agreed beforehand by the parties.

42. Equally important during this phase is the requirement to assess the risks that could emerge in the course of a lengthy working relationship with a commercial partner. Such risks typically include, for example, losses to the organizations as a result of contractor underperformance or non-performance to contract; adverse effects on the job security and career development of United Nations staff; lack of loyalty or commitment of the contractor's personnel to the goals and values of the organizations; distortion of the international character or policies of the organizations; or safety and security risks which have suddenly and justifiably shifted to the forefront of concerns of the international community. Last but not least, the organizations should also ensure beforehand that their prospective commercial partners do not have a shady history or uncertain financial health.

43. The Secretary-General's outsourcing policy guidelines referred to earlier, which incorporate measures previously recommended by JIU and OIOS for improving the contracting process, effectively address most of the risks outlined above by establishing a methodic sequence of steps to be taken prior to the award of contracts. For example, the guidelines require programme managers initiating outsourcing to, inter alia:

(*a*) Review alternative options (e.g. common services);

(*b*) Perform a rigorous cost-benefit analysis;

(*c*) Establish an outsourcing team;

(*d*) Prepare preliminary cost estimates;

(*e*) Draw up an adequate list of vendors, if necessary through advertisements and use of outside expert consultants;

(*f*) Assess quality criteria and prospective suppliers' capacities to meet them;

(*g*) Assess various risk factors.

44. In the course of their review, the Inspectors found that the above guidelines were not yet being observed fully and consistently, probably due to the transition period needed since 1999, when the guidelines were issued, to phase them into outsourcing procedures and operations. For example, when requested by the Inspectors, the organizations did not or could not provide documentary evidence on cost-benefit analyses and risk assessments performed for outsourcing arrangements in 1999 and 2000. As can be observed in annex II to this report, programme managers responsible for outsourced services had only a vague idea of the benefits to be drawn from outsourcing besides savings on staff costs and acquisition of expertise not available in-house. Efficiency results and quality outcomes were rarely mentioned or hardly substantiated.

45. Also, the Inspectors could not also ascertain if the policy principle cited in (*c*) above, requiring the creation of an outsourcing team, had ever been implemented at Headquarters or elsewhere, or whether it could indeed be applied without prejudice to the functions stipulated in the Procurement Manual and Financial Regulations and Rules for HCC and the Local Committees on Contracts (LCCs). The comments by some organizations on the draft of this report indicate that HCC and LCC might not be competent to review the substance of outsourcing contracts and that such a review should remain the responsibility of the programme managers concerned, assisted by ad hoc teams or steering committees such as used by WFP for example.

46. The Inspectors believe that the present policy guidelines on the subject should be reinforced with additional requirements during the pre-contract phase. The first requirement would be to ensure that, consistent with sound programming procedures and the need for transparency, an

outsourcing option had been included in the programme budget narrative and appropriation approved by the competent policy-making organ for the service or organizational unit concerned. The second requirement would be to introduce the safety and security factor among the risks that must be assessed prior to concluding a contract with a commercial vendor, depending on the nature of the contract. In assessing this factor, the safety and security services should be fully involved, as observed by the Inspectors at UNOV where the security staff are regularly represented on LCC. Furthermore, this risk factor needs to be reassessed periodically with respect to contractors having a significant number of their personnel working on United Nations system premises (**see recommendation 3 (*b*)**).

47. A third requirement would be to conduct thorough due diligence procedures on prospective contractors, particularly in the present circumstances in which ever-increasing numbers of companies of all sizes are suddenly falling on hard times if not into bankruptcy. Some organizations have eligibility criteria for registration of suppliers in their vendor lists or supplier databases. The criteria include, for example, product and service relevance; acceptance of United Nations payment conditions; prior United Nations system experience; financial health, etc. However not in all cases do these criteria receive detailed and regular attention, including use of specific methods and procedures for verifying the continuing accuracy of corporate information supplied by contractors.

48. As companies evolve all the time—in their ownership structure, financial resources, or geographical base, their ethical outlook and values also tend to change over time. It would therefore be desirable to investigate on a regular basis whether a company that qualified for business with organizations in the past would still be eligible for a similar contract today. Thus, relying simply on a contractor's past United Nations system experience would hardly suffice for the due diligence requirement. The types of information the organizations should obtain and endeavour to verify include: audited financial statements for the five preceding years; records of past and current lawsuits, and the identities of the contractor's other main customers.

49. In that respect, the UNICEF procedure for evaluating its suppliers of goods and services establishes a benchmark that the Inspectors believe should be incorporated in the organizations' outsourcing policies and procurement regulations. As stated in the UNICEF Supply Manual,

> the purpose of evaluating suppliers is to minimize the risk to UNICEF of dealing with an unstable or problematic company. The purpose of the procedure is to control the process to maintain a pool of suitable suppliers.

According to the UNICEF policy, evaluated suppliers with whom it continues to do business are re-evaluated every two years but a supplier can be re-evaluated at any time if the circumstances so warrant, such as changes in its financial situation. Furthermore, the evaluation process is multi-dimensional: commercial, financial, quality and other relevant factors.

50. The merit of the UNICEF approach is that it is preventive or pre-emptive of possible future problems with suppliers. By contrast, the United Nations general conditions for contracts and a few of the contract documents examined by the Inspectors provide for the contractor to furnish a performance bond (after the award of the contract and the supplier has commenced business), as well as for the United Nations right to terminate the contract should the contractor be adjudged bankrupt, be liquidated or become insolvent. Such dispositions are reactive and ultimately hardly amount to a strategy of risk avoidance.

51. UNOV officials honestly admitted to the Inspectors that they lacked the experience to evaluate their contractors on a regular basis. They suggested that this task should be centralized within the United Nations and its funds and programmes, as a common service for example. The Inspectors would favour an initiative by IAPWG to standardize and generalize the application by its members of due diligence procedures using relevant provisions of the UNICEF Supply Manual as a model (**see recommendation 4**).

IV. CONTRACT DOCUMENTS

52. The Inspectors examined the formulation and scope of contract documents essentially with respect to the four criteria stipulated in General Assembly resolution 55/232, namely: cost-effectiveness and efficiency; safety and security; maintaining the international character of the organization; and maintaining the integrity of procedures and processes. As a general remark, the Inspectors observed that the quality and comprehensiveness of the contract documents varied significantly from one organization to another, and in a few cases among contracts received from the same organizational unit.

53. Except in cases such as the United Nations Office at Geneva (UNOG), where contracts provided were actually bid documents and purchase orders, the contracts authored by United Nations entities (exclusive of the funds and programmes) were more or less similarly structured, with variations specific to the outsourced service concerned, and the United Nations general conditions for contract for services were usually appended as one of the annexes to the contract, but forming an integral part thereof. The contract documents of the funds and programmes followed no uniform format. Those of WFP were by far the most detailed and comprehensive. However, differences in contract detail and scope did not hinder the Inspectors' assessment of the extent to which the contract documents covered the four criteria discussed in the following paragraphs.

54. **Cost-effectiveness and efficiency:** If "cost-effectiveness" is defined as the most economic or judicious application of resources to produce the most results and quality outcomes, then the standard procurement rule requiring "the lowest acceptable bid" addresses the issue rather obscurely. The "best value for money bid" suggested by some organizations might be a more forthright formulation, as clearly stipulated for example in the WFP Non-Food Procurement Manual, which incorporates the principle of "best value" award for the competitive RFP process. WFP might therefore wish to share with other organizations the relevant provisions of its Manual on this principle within the context of IAPWG (**see recommendation 5 (*a*)**).

55. The contract documents reviewed by the Inspectors sought in different formulations to obtain the best value for money. For example, in one of its contracts (PTU/CON/04/97), ESCWA requires that

> the Contractor shall be fully responsible for ensuring that all work and services under this contract are performed by its personnel with maximum effectiveness and efficiency. The Contractor shall employ qualified, competent and well-trained personnel, and shall take all reasonable measures to ensure that its personnel conform to the highest standards of moral and ethical conduct.

56. A more or less typical clause in contracts awarded by United Nations departments and WFP is one under which the contractor is also required to submit the curricula vitae of its personnel or of key officers, and the organizations reserve the right to reject unqualified candidates, apply penalty clauses or terminate the contract in the event of underperformance or non-performance. These provisions, together with the requirement of a "performance bond" (financial guarantee that the supplier will perform to contract) represent an incentive framework for obtaining maximum effectiveness and efficiency from the contractors. Additionally, UNOG, for example, reports that it is developing a policy of requiring bidders to be International Organization for Standardization (ISO)-certified, or equivalent.

57. As noted earlier, however, not in all cases were those provisions included or standardized in the contracts reviewed, although formulations depended in some cases on the type of service concerned. Thus, the United Nations contract with the Hudson Group for the management and operation of a news-stand facility (PD/CO292/00) included no clauses on effectiveness and efficiency, no doubt because this service does not directly affect internal operations of the United Nations. More generally, however, quality standards and controls were not built into the contract documents and this made it difficult, as will be seen in the next section, for the organizations to monitor and evaluate contractor performance in the absence of agreed metrics.

58. In that respect, the WFP contract with Messrs La Tecnica s.r.l. for provision of cleaning services (019/98MSA-05) may serve as best practice for the organizations in terms of its clear specification not only of the scope of work but also of performance and quality standards required of the contractor, together with performance reporting procedures to ensure that the agreed standards are indeed complied with. It seems obvious that the more an outsourced arrangement is likely to impinge on the smooth conduct of an organization's internal operations, the more close attention should be given to a clear and mutually accepted definition of the efficiency and quality standards against which a contractor's performance will be monitored and evaluated (**see recommendation 5 (*b*)**).

59. **Safety and security concerns** are reflected in at least half of the contract documents, especially those awarded by the United Nations Secretariat entities. One UNOG contract (00/PTS-85/ED) for instance, in a clause which could serve as a model for all outsourced contracts by the organizations, requires the contractor to provide beforehand to UNOG the personal identity details and home addresses of all its employees to be assigned to the UNOG premises to perform the contract, and to report to UNOG any personnel changes during the duration of the contract. In the same clause, the contractor is required, at its own expense, to ensure the medical examination of its personnel as may be required by UNOG, which reserves the right to object to the assignment of any worker not fulfilling the required health standards.

60. Similarly, the United Nations Headquarters (UNHQ) catering contract (PD/CO139/97)

> reserves the right to request that employees, agents and servants of the contractor be required to submit to a background review by law enforcement agencies,

the costs thereof being borne by the contractor. Additionally, the contract includes the provision that all employees should be free of hepatitis B, tuberculosis and drug use, and that drug and health testing will be performed as required by New York State and United States federal laws.

61. Furthermore, the contracts required the supplier to obtain various insurance policies or certificates covering, for example, workers' compensation and employers liability; disabilities; comprehensive general liability; and/or comprehensive automobile liability. These policies are generally required, as may be applicable, to name the United Nations as "Additional Insured" and to encompass, as pertains to the United Nations premises, all risks including but not limited to, fire and extended coverage.

62. Heightened safety and security concerns worldwide are compelling a re-evaluation of outsourcing arrangements involving the regular presence within the United Nations premises and offices of large numbers of contractor personnel. This point was stressed by UNOG and UNOV officials who noted the additional financial implications for more regular and rigorous screening of contractor personnel. The Inspectors believe that it is a commendable pre-emptive policy to require suppliers to provide beforehand to the organizations the personal identity details, including home addresses and curricula vitae of personnel to be assigned to outsourced duties within the organizations, subject of course to national legislation on individual privacy and data protection. More regular security checks (including health checks) of such personnel would be an additional prudent undertaking, the costs of which should be considered during the pre-contract phase along with the direct costs of outsourced operations (**see recommendation 6**).

63. **Maintaining the international character of the organizations:** Under this criterion, the Inspectors analysed the geographical distribution of suppliers registered on the organizations' vendor lists, on the one hand, and of suppliers performing outsourced contracts in 1999 and 2000, on the other. The Inspectors also checked for the standards of conduct and qualifications, including the multilingual factor, stipulated for contractor personnel, the integrity of United Nations privileges and immunities, including its tax-exempt status, as well as restrictions on the use by contractors of the United Nations emblem and name for commercial purposes.

64. With respect to geographical distribution, tables 2 and 3 provide a breakdown of suppliers registered as of 2002 on the vendor lists of the Procurement Division at Headquarters and of the UNOG Purchase and Transportation Service, respectively. The two organizational units concerned currently operate the largest

procurement operations for the United Nations at the global level. It should be stressed, however, that the data in the two tables include suppliers of both goods and services. The United Nations Procurement Division reports that developing countries accounted for 42 per cent of the procurement conducted by the United Nations in 2001. Geographical distribution by the funds and programmes is equally diversified globally for all forms of procurement. A typical example for this group of organizations is WFP, whose food purchases (as distinct from donor food aid) in 2001 showed the developing countries accounting for 56 per cent of the total value of food procurement. However, unlike food items, the origins of manufactured goods procured by the system organizations are more difficult to trace.

Table 2. United Nations Headquarters Vendor List (as of February 2002)

REGION	NUMBER	PERCENTAGE
Africa	141	2.6
Asia/Pacific	746	13.8
Eastern/Central Europe	129	2.4
Western Europe	1 228	22.7
Latin America/Caribbean	68	1.3
North America	3 087	57.2
TOTAL	**5 399**	**100.0**

Table 3. United Nations Office at Geneva Vendor List (2002)

REGION	NUMBER	PERCENTAGE
Africa	13	0.5
Asia/Pacific	71	3.0
Eastern/Central Europe	45	1.9
Western Europe	2 151	89.7
Latin America/Caribbean	7	0.3
North America	110	4.6
TOTAL	**2 397**	**100.0**

65. The Inspectors found, however, that the outsourcing of services–as opposed to the procurement of goods–is generally done with local suppliers or local subsidiaries of international companies. Practically all the contracts awarded by the organizations in 1999 and 2000, at global level (Geneva, New York, Rome and Vienna) as well as field level (Nairobi and seats of field-based regional economic commissions) went to locally-based firms, excepting technical cooperation projects supported by UNEP and UN-Habitat under national execution arrangements which, as noted earlier, should not qualify as outsourcing. Similarly, the UNDP subcontracted internal audit services were performed by local partners of its contractor (KPMG) in the Arab States and the Asia and Pacific region.

66. The reasons for relying essentially on local suppliers for outsourcing purposes are almost self-evident. The logistic and cost factors are not to the advantage of geographically distant suppliers without local subsidiaries. Another important factor is the need for familiarity with local technical and safety standards, particularly with respect to building management services. Proficiency in the local language may be another requirement. Notwithstanding these factors, the Inspectors noted that while the contract award procedures appeared to encourage competition in general, in some instances the formulation of bid documents tended to discourage competition by externally-based suppliers.

67. An example of this practice is provided by a UNOG bid document (00/PTS-77/ED) requiring all suppliers without exception submitting proposals to be subject to Swiss federal and cantonal laws. The bid document further lists a range of conditions to be fulfilled by prospective suppliers but which were heavily tilted in favour of local suppliers. Finally, the bid document requires that proposals be submitted "exclusively in French" and that all correspondence and documentation must "imperatively" be written in French. Such formulations could be construed, mistakenly of course, as veiled discrimination against non-local contractors, but also against

Swiss suppliers based in other language zones of the country. The question could also be raised as to whether the requirement to submit proposals to tender exclusively in any single language does not infringe the multilingual policy of the Organization as well as its international character. Contractors should be enabled to compete in any of the working languages of the Organization and this should be made more explicit in the general conditions for contracts and procurement manuals. In its comments on the draft of this report, UNOG provides the clarification that for its high-value contracts competed internationally, the majority of the documents are advertised on the UNOG Internet web site in English and French, and in many cases they are published in English, with a French translation available upon request.

68. The international character of the organizations was also fostered in some contract documents by requiring, for example, that the contractor's personnel adhere to the standards of conduct governing the personnel of the organization concerned (WFP) or that the contractor's personnel be multilingual (UNHQ catering contract). The provisions relating to United Nations privileges and immunities and tax-exempt status are included in the United Nations general conditions for contracts, usually attached as one of the annexes to the main contract document. In general, these criteria are fully applied except in one case where UNON reports that the United Nations is required to pay value added tax in Kenya (**see recommendation 7**).

69. **Maintaining the integrity of procedures and processes:** In their review of the contract documents, the Inspectors came across no instances in which contractors assumed responsibility for internal procedures and processes of the organizations, as opposed to those belonging to and controlled by the contractor for the provision of services and as an integral part of the contractor's own corporate system. At any rate, most of the contracts included references to United Nations Financial Regulations and Rules, in particular with respect to United Nations payment conditions and procedures. On the other hand, the Inspectors found that managerial control procedures over contractor performance needed to be tightened further, as outlined below.

V. CONTRACT MANAGEMENT

70. While most of the contract documents were generally well formulated from a legal standpoint and effectively limited the organizations' liabilities to suppliers, the contract management phase requiring systematic and effective oversight of contractor performance, was more problematic. This aspect of the review was elaborately covered in the previous JIU report on the subject and the Inspectors find with satisfaction that the recommendations of that report on contract management are reflected in the Secretary-General's policy guidelines on outsourcing practices.

71. Paragraphs 38 and 39 of these guidelines are particularly to the point:

> 38. The primary responsibility for contract administration rests with the requisitioning department or office concerned. This involves periodic, ongoing contract monitoring. Without diligent contract monitoring, particularly of vendor performance and invoicing, the primary rationales for outsourcing–quality performance and cost-savings–can easily be lost.
>
> 39. The monitoring process should consist of:
>
> (*a*) The right to perform evaluations not only at set intervals during the term of the contract but also at any time and from time to time at the discretion of the United Nations;
>
> (*b*) The right to update performance standards;
>
> (*c*) The right to compel the vendor to take corrective action to remedy deficient work and the right to prohibit inadequate, inappropriate or improper work;
>
> (*d*) The right to impose, in addition to other remedies, liquidated damages for the vendor's failure to meet performance expectations, including the timeliness of such performance. The inclusion of liquidated damages is particularly appropriate for outsourced contracts. (A/53/818)

72. Maintaining appropriate managerial controls, as stipulated in the General Assembly resolution under reference, requires a minimum of internal specialists in the domain concerned. However, as may be noted in annex II to this report, one of the reasons frequently provided by the programme managers for outsourcing is the lack of internal expertise or competence. The question that arises then is how the contractor's performance can be validly monitored and even audited. One option would be to have outside expert consultants to perform technical or professional audits periodically. However, it was not obvious to the Inspectors that such an option was already in use. Further still, where each contract manager is responsible for several contracts simultaneously, as observed for example in the ITSD at Headquarters, effective performance oversight may prove difficult.

73. When the Inspectors requested copies of contractor performance evaluations that the organizations had performed in 1999 and 2000, United Nations programme managers almost invariably provided the standard one-page "supplier performance report" form they had completed for outsourced operations, clearance of which is the basis for payment of contractors. This form, no doubt designed for general procurement activities, is no longer adequate for monitoring and evaluating performance under outsourced contracts, particularly in the context of the new policy guidelines on outsourcing. Only UNDP provided the Inspectors with documentary evidence of the periodic assessments it performs on its contractors for internal audit services, and these assessments require the inputs of its field managers receiving the services. In its comments on the draft of this report, the United Nations Procurement Division stated that it had developed a new, more comprehensive system for monitoring, evaluating and certifying supplier performance under outsourced contracts (**see recommendation 8**).

74. Further still, the Inspectors observed that without a performance-based or results-oriented environment, it might be difficult to obtain the maximum benefits likely to be gained from outsourcing practices. As such contract management would task not only the programme manager concerned to be open to new ways of thinking and doing things, but also the entire staff more broadly, as end-users of outsourced services,

to be receptive to new ideas and innovations proposed by contractors. This was found to be especially important in areas more directly affecting staff work methods or habits such as information technology services.

75. The duration of contracts varied depending on the needs of the organizations or nature of the service concerned. The standard duration for contracts in the area of facilities management, for example, was three years, renewable for another two years subject to satisfactory performance. In cases where contractors have invested in plant and equipment, such as in catering services, it seems logical to allow them adequate time to recover their initial investments. As pointed out by some officials, the time and resources required to prepare bid documents and complete outsourcing procedures in line with the new policy guidelines, would also seem to argue the case for a more or less standard contract duration of five years before re-bidding.

76. The Inspectors would rather caution that contract duration and the timing of a new bid process should be determined solely by the nature of the service and the needs of the organization concerned. In rapidly evolving areas such as information technologies, annual contracts would seem desirable so as to widen the choices available to the organizations. In other areas, such as commercial activities, contract duration and renewal might depend on whether or not contractors are able to meet pre-agreed net revenue targets. The Inspectors however believe that, in order to diversify sources of expertise and reduce the inherent risks of placing the organizations at the mercy of a sole source, the same supplier should not be used for more than ten years running, particularly in the light of General Assembly resolution 56/235 of 24 December 2001, which endorsed the JIU report on policies and practices in the use of the services of private management consulting firms in the organizations of the United Nations system. It is recalled that recommendation 7 of this report emphasized the need for the organizations to

> adopt a policy of rotating management consulting firms to ensure that they derive the broadest possible benefits from their relations with such firms.

This policy principle should apply to all companies in contractual relations with the organizations.

77. Another issue already raised in the Inspectors' previous report concerns the need to enhance the training of in-house staff in the management of outsourced contracts, especially in the control of changes in the volume, scope and quality of services as well as related invoices. Such training could be tailored in priority to those organizational units, such as ITSD and commercial services, which are expected, out of necessity and industry logic, to develop increasing professional relations with private-sector contractors.

78. The Staff Development Service of the Office of Human Resources Management (OHRM) currently provides training at Headquarters in United Nations procurement and contract management

> under the Procurement Module of the Training Programme in United Nations Human and Financial Resources Management. In addition, the Procurement Module (along with several contract management units) is offered via a self-study CD ROM, also available from the Staff Development Services.[8]

The Inter-Agency Procurement Services Office also offers courses along the same lines. However, all duty stations and organizational units do not benefit equally from such training facilities, and training resources appear quite limited.

79. Additionally, UNDP suggests the need to work out common guidelines for the United Nations system, for example by using the IAPWG forum, on the conduct of cost-benefit analyses, development of decision flow charts, establishing analysis criteria and quality assurance, and performing independent verification and validation (**see recommendation 9**).

[8] Each of these staff development activities has been designed specifically around United Nations Secretariat procedures and practices in this area [letter to JIU from OHRM, "Comments on JIU draft report on 'Management Audit Review of Outsourcing in the United Nations and United Nations Funds and Programme' ", of 15 August 2002].

ANNEX I

GENERAL ASSEMBLY RESOLUTION 55/232 OF 23 DECEMBER 2000 ON OUTSOURCING PRACTICES

Resolution adopted by the General Assembly

[*on the report of the Fifth Committee (A/55/532/Add.1 and Corr.1)*]

55/232. Outsourcing practices

The General Assembly,

Recalling its resolution 54/256 of 7 April 2000,

Having considered the report of the Secretary-General on outsourcing practices[1] and the related report of the Advisory Committee on Administrative and Budgetary Questions,[2]

1. *Requests* the Secretary-General to continue to ensure that programme managers are guided by the following four basic reasons for outsourcing:

(*a*) To acquire technical skills not readily available within the Organization, including accessing state-of-the-art technologies and expertise or acquiring needed flexibility to meet quickly changing circumstances;

(*b*) To achieve cost savings;

(*c*) To provide a source more effectively, efficiently or expeditiously;

(*d*) To provide an activity or service not needed on a long-term basis;

2. *Affirms* that at least the following three significant goals must be considered with regard to the use of outsourcing by the United Nations:

(*a*) To respect the international character of the Organization;

(*b*) To avoid a possible negative impact on staff;

(*c*) To ensure appropriate management and/or control over the activities or services that have been outsourced;

3. *Affirms also* the firm commitment of the United Nations to provide fair treatment on as wide a geographical basis as possible to all participants involved in United Nations procurement activities, including outsourcing;

4. *Requests* the Secretary-General to continue to consider outsourcing actively in accordance with the guidance and goals mentioned above and to ensure that programme managers satisfy all of the following criteria in their assessment of whether or not an activity of the Organization could be fully, or even partially, outsourced:

(*a*) Cost-effectiveness and efficiency: this is considered to be the most basic criterion; unless it can be adequately demonstrated that an activity can be done significantly more economically and, at the very least, equally efficiently, by an external party, outsourcing may not be considered;

(*b*) Safety and security: activities that could compromise the safety and security of delegations, staff and visitors may not be considered for outsourcing;

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[1] A/55/301.

[2] A/55/479.

(*c*) Maintaining the international character of the Organization: outsourcing may be considered for activities where the international character of the Organization is not compromised;

(*d*) Maintaining the integrity of procedures and processes: outsourcing may not be considered if it will result in any breach of established procedures and processes;

5. *Also requests* the Secretary-General to report to the General Assembly at its fifty-seventh session on the following:

(*a*) Progress achieved with regard to the implementation of the provisions of the present resolution, including information on the location and type of outsourced activities and the reason therefor;

(*b*) The activities outsourced during the years 1999-2000, by providing similar detailed information as mentioned in paragraph 5 (*a*) of the present resolution;

6. *Requests* the Joint Inspection Unit to conduct a management audit review of outsourcing in the United Nations and the United Nations funds and programmes in accordance with existing practice and to report thereon to the General Assembly at its fifty-seventh session.

89th plenary meeting

23 December 2000

ANNEX II

OUTSOURCED CONTRACTS IN THE UNITED NATIONS SECRETARIAT AND THE FUNDS AND PROGRAMMES IN 1999 AND 2000
(Summary of data provided by the organizations)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
			UNHQ–FCSD			
Personnel for conference room set-up	One Source Facility, Inc.	21/04/1999	Never in-house	US$ 219 148		At the expiration of the contract
Personnel for garage administration	One Source Facility, Inc.	01/09/1999	Cost-effectiveness	US$ 74 569	Cost savings based on an initial pilot programme in June 1994	At the expiration of the contract
Supplies services for the managing and operating of United Nations gift centre	Hudson News	08/09/1999	Functions outside competence of United Nations	None	Administrative efficiencies	Ongoing
News-stand	Hudson News	Ongoing	Functions outside competence of United Nations	None	Administrative efficiencies	Ongoing
Catering	Restaurant Associates	Ongoing	Functions outside competence of United Nations	None	Administrative efficiencies	Ongoing
Painting of walls and ceiling	L&L Painting	01/02/1999	To complement in-house staff to meet increased workload	US$ 275 832	The cost/sq ft based on new contract is US$ 0.35/sq ft. Prior to the outsourcing of this work, the cost per sq ft. to the organization was between US$ 0.76 and US$ 0.84/sq ft. These last figures do not include overhead, sick days and other benefits. We presently have only one painter and as in the case above when the demand for a large area presents itself, in order to oblige to the immediate need, we must resort to the external contractor.	
Custodial services	One Source Facility, Inc.	21/04/1999	Never in-house	US$ 8 092 946		At the expiration of the contract
Provision of stationery and office supplies	Office Depot	01/02/1999	Special expertise in provision of stationery and office supplies	US$ 1.6 million/ year for United Nations Secretariat	Desk to desk delivery of office supplies	December 2001

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
Travel services	American Express	01/04/1999	Special technical expertise required processing the purchase of US$ 20 million (US$ 16 million in 1999 and US$ 20 million in 2000) in airline tickets	No cost to United Nations	In-house travel agency would require hiring of large number of staff and is not considered cost-effective	Ongoing evaluation
Landscaping services	Alpine the Care of Trees	10/05/2000	To complement in-house staff to meet increased workload	US$ 304 936	Outsourcing initiated in 1992	At the expiration of the contract
Supply, delivery and installation of carpet tiles at UNHQ Complex	Consolidated Carpet	24/10/2000	This area has not been fully outsourced. The outside contractor is used when the amount of square yards is beyond the internal capacity	US$ 785 340	Taking into consideration that this job entails working continuously on your knees and is arduous and difficult work, when we're presented with large areas to be completed in a limited amount of time, it is beneficial and cost-effective to use the outside contractor to process the job. Comparing internal and external costs, the primary factor to be taken in consideration is the accomplishment of a large area in a short amount of time, a capacity that the internal facilities do not possess.	
Furniture refinishing services	Empire State Upholstery Corp.	18/12/2000	To complement in-house staff to meet increased workload	US$ 98 840	Outsourcing initiated in 1997	At the expiration of the contract
			UNHQ -ITSD			
Telecommunications and broadcasting operations and maintenance	E-J Electric	01/07/1996	Technical skills not available in the Organization	US$ 8.5 million average	n/a	Contract reviewed and extended 01/07/2001
Integrated Management Information System (IMIS) system design and development	Price Waterhouse Coopers	Original contract in 1991	Service not needed on a permanent basis. Project plan approved by the General Assembly included use of contractor	US$ 774 216.50	n/a	Contract reviewed in 1999 and extended in November 1999

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
IMIS reports and development	Datamatics America	01/02/1999	Service not needed on a long-term basis	US$ 100 672	n/a	Contract reviewed in September 1999 and extended through 31 December 1999
IMIS reports and development	Logix Infotech	01/04/1999	Service not needed on a long-term basis	US$ 110 880	n/a	Contract reviewed in September 1999 and extended through 31 December 1999
IMIS reports and development	Trine Aspects	01/08/1998	Service not needed on a long-term basis	US$ 116 160	n/a	Contract reviewed in July 1999 and extended through 31 December 1999
IMIS reports and development	Trine Aspects	03/08/1998	Service not needed on a long-term basis	US$ 126 720	n/a	Contract reviewed in July 1999 and extended through 31 December 1999
IMIS reports and development	Vital Computer	01/10/1998	Service not needed on a long-term basis	US$ 181 732	n/a	Contract reviewed in September 1999 and extended through 31 December 1999
IMIS reports and development	Interim Technology	09/02/1998	Service not needed on a long-term basis	US$ 71 808	n/a	Contract reviewed in March 1999 and completed 30 June 1999
IMIS reports and development	New Protocol	01/03/1999	Service not needed on a long-term basis	US$ 77 376	n/a	Contract reviewed in August 1999 and completed 4 October 1999
Specialist PC and LAN technicians	Decision One	01/01/1999	Technical skills not readily available within the Organization	US$ 126 672	n/a	Ongoing
Microsoft office specialist services	Compuforce	17/05/1999	Technical skills not readily available within the Organization	US$ 182 938	n/a	Ongoing

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
Help desk	Decision One	01/04/1998	Provide a more effective and efficient service	US$ 1 542 198	Access to a large pool of expertise not available in-house	Ongoing
Technical support assistants	Compuforce	Contract started before 1999	Technical skills not readily available within the Organization	US$ 312 100	n/a	Ongoing
Technical support assistants	Tech Trend	Contract started before 1999	Technical skills not readily available within the Organization	US$ 142 800	n/a	Ongoing
Facility management of Optical Disc System	Decan	01/02/1999	Technical skills not readily available within the Organization	US$ 869 514	n/a	Ongoing
Provision of telephone operator service	Interim/Spherion	31/03/1998	Provide services more effectively and efficiently	US$ 213 157.99	n/a	Re-bid in 2001. New contract is in place
Provision of technicians to operate and maintain telecoms equipment	One Source Facility Services, Inc.	31/12/1998	Technical skills were not readily available within the Organization	US$ 258 665	n/a	United Nations staff now provide this service
Provision of technicians to operate and maintain telecoms exchange	Intecom	14/01/1986	Technical skills not readily available within the Organization	US$ 904 869.77	Provides the management the flexibility to bring in new skill sets with change in technology	Re-bid in 2001. New contracts will be in place by end of 2001
IMIS system design and development	Price Waterhouse Coopers	Original contract in 1991	Service not needed on a permanent basis. Project plan approved by the General Assembly, included use of contractor	US$ 1 855 641.77	n/a	Contract reviewed and completed in October 2000
IMIS reports and development	Trine Aspects	01/08/1998	Services not needed on a permanent basis	US$ 67 760	n/a	Contract reviewed in April 2000 and completed 31 July 2000
IMIS reports and development	Trine Aspects	03/08/1998	Services not needed on a permanent basis	US$ 73 920	n/a	Contract reviewed in April 2000 and completed 31 July 2000

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
IMIS reports and development	Datamatics America	02/01/1999	Services not needed on a permanent basis	US$ 64 064	n/a	Contract reviewed in April 2000 and completed 31 July 2000
IMIS reports and development	Logix Infotech	04/01/1999	Services not needed on a permanent basis	US$ 86 240	n/a	Contract reviewed in April 2000 and completed 31 July 2000
IMIS system design and development	V. Link	11/01/2000	To complete work following departure of Price Waterhouse Coopers	US$ 20 400	n/a	Contract completed 30 March 2001
IMIS system design and development	TIS Worldwide	11/01/2000	To complete work following departure of Price Waterhouse Coopers	US$ 27 600	n/a	Contract completed 30 March 2001
IMIS system design and development	NewTech Ventures	11/01/2000	To complete work following departure of Price Waterhouse Coopers	US$ 36 000	n/a	Contract completed 30 June 2001
Specialist PC and LAN technicians	Decision One	01/01/2000	Specialist services	US$ 146 140		
Microsoft office specialist services	Compuforce	17/05/2000	WordPerfect to office conversion	US$ 179 008		
Help desk	Decision One	01/04/1999	No United Nations posts	US$ 1 542 198		
Technical support assistants	Compuforce		No United Nations posts	US$ 209 300		
Technical support assistants	Tech Trend		No United Nations posts	US$ 282 100		
Facility management of Optical Disc System	Decan	01/02/2000	No United Nations posts, special technical service	US$ 948 560		
Provision of telephone operator service	Interim/Spherion	31/03/1998	Provides services more efficiently and effectively	US$ 196 052.68	Provides the management with flexibility	Re-bid in 2001. New contract is in place
Provision of technicians to operate and maintain telecoms equipment	One Source Facility Services, Inc.	31/12/1998	Lack of qualified internal staff to perform the duties	US$ 190 688.36	Provides the management the flexibility to bring in new skill sets with change in technology	United Nations staff now provide this service
Operation and maintenance of United Nations telecoms exchange	Intecom	14/01/1986	Lack of qualified internal staff to perform the duties	US$ 816 295.02	Provides the management the flexibility to bring in new skill sets with change in technology	Re-bid in 2001. New contracts will be in place by end of 2001

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
			UNOG			
Electricity work	Cometel	1998-2000	Fluctuation of workload (3-22 people). Not enough in-house staff available	Sw F 821 856	***See reason for outsourcing***	Ongoing after each intervention, for the purpose of certification of invoices and for contract renewal
Elevator maintenance	Schindler	01/01/1999	Skills not available within the Organization	Sw F 541 910	n/a	Ongoing after each intervention, for the purpose of certification of invoices and for contract renewal
Paint work	Prezioso	01/01/1999	Fluctuation of workload	Sw F 490 576	n/a	Ongoing after each intervention, for the purpose of certification of invoices and for contract renewal
Sanitary work	Constantin	01/01/2000	Fluctuation of workload (0-9 people). Not enough in-house staff available	Sw F 249 571	***See reason for outsourcing***	Ongoing after each intervention, for the purpose of certification of invoices and for contract renewal
Temporary operators for conference rooms	Adecco	01/01/2000	Fluctuation of workload	Sw F 300 000	***See reason for outsourcing***	Ongoing after each intervention, for the purpose of certification of invoices and for contract renewal
Building cleaning	ISS	01/01/2000	More flexible and more cost-effective than in-house cleaning staff	Sw F 3 150 000	***See reason for outsourcing***	Ongoing after each intervention, for the purpose of certification of invoices and for contract renewal. Quality control on a daily basis.

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
			UNOV			
Provision of office supplies for United Nations offices at Vienna and related services such as storage, on-call deliveries invoicing according to cost centres, statistical documentation	Wertpraesent	01/01/1999	Cost-saving measure, e.g. outsourced services are 25 per cent cheaper than in-house supply store services, due to savings in staff, space, equipment and no need for investment in items to be stored	US$151 260	Cost savings are in the range of US$ 40 000 per annum	
Provision of corridor photocopy machines on a rental basis to all United Nations offices at Vienna, the United Nations Industrial Development Organization (UNIDO) and the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO) with related services and cost centre identification	Canon	01/01/1999	There are more than 120 photocopy machines installed in the offices of UNOV, UNIDO and CTBTO, purchase of which would require enormous funds. The outsourcing of this service includes modern equipment, service, maintenance and repairs, toners, etc. The costs are prorated per photocopy made	US$ 184 000	Cost savings result from avoiding acquisition costs of approx. US$ 1 800 000 Note: The current contract of ATS 0.22 per copy (estimated 16 million copies p.a.) includes everything but the paper	
Travel services for purchase of tickets for official travel	American Express Vienna		The United Nations does not have the connections to carriers that worldwide organizations like AMEX have. Cost savings, range of services, effectiveness	US$ 2 550 000 yearly gross turnover with travel agent	US$ 31 000 immediate refund on gross turnover	With UNIDO
Provision of office supplies for United Nations offices at Vienna and related services such as storage, on-call deliveries invoicing according to cost centres, statistical documentation	Buero Austria	01/01/2000	Cost-saving measure, e.g. outsourced services are 25 per cent cheaper than in-house supply store services, due to savings in staff, space, equipment and no need for investment in items to be stored	US$ 145 038	Cost savings are in the range of US$ 40 000 per annum	

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
Provision of corridor photocopying machines on a rental basis to all United Nations offices at Vienna, UNIDO and CTBTO with related services and cost centre identification	Canon	01/01/2000	There are more than 120 photocopy machines installed in the offices of UNOV, UNIDO and CTBTO, purchase of which would require enormous funds. The outsourcing of this service includes modern equipment, service, maintenance and repairs, toners etc. The costs are prorated per photocopy made	US$ 167 815	Cost savings result from avoiding acquisition costs of approx. US$ 1 800 000 Note: The current contract of ATS 0.22 per copy (estimated 16 million copies p.a.) includes everything but the paper	
Travel services for purchase of tickets for official travel	American Express Vienna	01/04/2000	The United Nations does not have the connections to carriers that worldwide organizations like AMEX have. Cost savings, range of services, effectiveness	US$ 2 100 000 yearly gross turnover with travel agent	US$ 26 000 immediate refund on gross turnover. Savings in staff strength. Discounts achieved through cost-effective travel arrangements resulting into 12 per cent below full cost	
			UNON			
Provision of diplomatic pouch services	Tabakl Freight Int Ltd.	15/07/1999		US$ 120 000		May 2001
Electrical and mechanical maintenance	DHL	13/07/1999		US$ 135 000		May 2001
Air import sea transport clearing and forwarding services	Urgent Cargo Handling Ltd.	15/07/1999		US$ 196 000		May 2001
Establish fax transmission capabilities (entrance)	Grid Arendal	15/02/2000		US$ 110 456		
Electrical and mechanical maintenance	Kinetic control	01/10/2000		US$ 128 741		
Gardening services	Diani Flowers and Landscaping Ltd.	01/07/2000		US$ 166 429.06		
Provision of cleaning services	Profession Clean Care Ltd.	01/07/2000				
Computer maintenance	First Computers	01/12/2000		US$ 911 988.02		
Building and external works	Varsani enterprises	01/12/2000		US$ 315 173.16		

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
ECONOMIC COMMISSION FOR AFRICA (ECA)						
Electromechanical installations and maintenance services	ABB MIDROC Industrial Service PLC	01/10/1998	Functions outside competence of ECA	US$ 288 000	Cost-effectiveness and administrative efficiencies	Ongoing evaluations
Electromechanical installations and maintenance services	ABB MIDROC Industrial Service PLC	01/10/1998	Functions outside competence of ECA	US$ 216 000	Cost-effectiveness and administrative efficiencies	Ongoing evaluations
ECLAC						
Office cleaning services	EULEN	10/09/1998	Cost-effectiveness and efficiency	US$ 126 216	Elimination of 45 General Service posts (redeployed and/or abolished)	July 2001
Security services	Wackenhut	22/02/1999	Cost-effectiveness and efficiency	US$ 30 000	Elimination of 3 General Service posts (redeployed and/or abolished)	December 2000
Internal messenger services	Envía	18/06/2001	Cost-effectiveness and efficiency	US$ 33 168	Elimination of 6 General Service posts (redeployed and/or abolished)	Not yet
ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC (ESCAP)						
Custodial services	Property Care Services Ltd.	01/03/2000	Original outsourcing took place at occupation of building complex in 1975	US$ 148 372.66	n/a	13/11/2000
ESCWA						
Office support services	Starmanship	01/11/1998	Additional services needed (clerical level)	US$ 180 000	United Nations employee package benefits (EFP) savings	November 2000
Office support services	Management Plus	01/08/2001	Additional services needed (clerical level)	US$ 173 000	EFP plus US$ 24 000	New contract
Security services	Future Security	20/10/1997	No posts to cover required services	US$ 190 000	United Nations EFP savings	October 2000
Security services	Securitas	01/08/2001	No posts to cover required services	US$ 140 000	US$ 50 000 savings	New contract
UNEP						
Specialized energy service feasibility study. Monitoring and targeting energy project	March Consulting Group	05/07/1999	GEF PD F-8 UNEP/GEF	US$ 320 000		
Provision of policy and environment expertise to the Balkan Task Force	GAIANetwork Finland	01/04/1999	Environmental impact exigency in Kosovo	US$ 199 000		06/07/2001

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
Maintenance of the Mercure Telecom sister and each station	GRID Arendal/UIC	01/06/1999	Specialized service GC resolution UNEP/GC/17.38, 18.47, 19.3	US$ 255 000		04/09/2000 and 27/02/2001
Leasing of office space for UNEP/Regional Office for North America (RONA) Washington, D.C.	Falke	February 2000	UNEP/RONA relocated from New York to Washington, D.C.	US$ 298 446		
Provision of support services	National Water Inst. Research UNEP/GEMS	15/07/20000	Counterpart contribution from Canada for this project	US$ 103 022		12/10/2000 and 03/04/2001
Design of sustainable business alternatives network to promote transfer cleanness technologies	ICF Consulting	21/12/2000 to 20/04/2001	Promotion exercise	US$ 278 077		
UN-Habitat						
Drainage improvement of the port of Kalamu river, Kinshasa	Sotraben Co.	23/06/1999		US$ 518 000		
Drainage cleaning of the main port of Kalamu river	Parisi Co.	23/06/19999		US$ 240 000		
Construction of a health educational centre	Stad Co.	15/06/1999 and 14/06/2000	Variation of order	US$ 266 823		
Construction of 12 classroom school in Erbil in Northern Iraq	Rozy Co.	14/10/2000	Construction work in Northern Iraq	US$ 187 799		17/06/2001
Construction of 12,47 km road in Dohuk in Northern Iraq	Avan Co.	01/07/2000	Construction work in Northern Iraq	US$ 580 300		23/05/2001
Housing of 100 internally displaced persons (IDPs) in Suleimanlya in Northern Iraq	Qala Co.	15/11/2000	Construction work in Northern Iraq	US$ 8 078 185		23/05/2001
UNICEF						
PC/laptop hardware maintenance	MicroAge Integration Group	01/10/1997	Lack of in-house expertise	US$ 111 800		March 2000
PC/laptop hardware maintenance	Manhattan Information System	01/06/2000	Lack of in-house expertise	US$ 210 196		None

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
PC/laptop hardware maintenance	MicroAge Integration Group	28/05/1997	Lack of in-house expertise	US$ 280 053.30		March 1999
			UNFPA			
Printing services	Quebecor Printing (Canada)	03/03/1999	Lack of printing service	US$ 103 077	Expertise in the field	Upon completion of services
Legal services	Greenberg Traurig (USA)	01/02/1999	Lack of expertise in real-estate negotiation	US$ 70 000	Expertise in the field	Upon completion of services
Mailing house services	IKON/IMAGE (USA)	01/11/1999	Lack of room for storage of UNFPA publications	US$ 69 800	Availability of e-storage room	Upon completion of services
Inspection and sampling services	Crown Agents (UK)	January 2000	Lack of manpower and expertise in this area which are essential for the provision of contraceptives	US$ 423 707	Expertise in the field	Upon completion of services
Testing services	Enersol (Australia)	September 1999	Lack of manpower and expertise in this area which are essential for the provision of contraceptives	US$ 153 000	Expertise in the field	Upon completion of services
			WFP			
Headquarters hygienic maintenance services	La Tecnica	February 1999	Comprehensive provision of services: cleaning, fumigation, gardening, laundry, carpet cleaning, toilet supplies, disinfecting, waste and medical waste disposal, etc. (former 23 contracts consolidated into 1); administration and management of agreement and staff; performance based on contract	US$ 350 000	Rationale of outsourcing was achieved	February 2001 for assignment of third and last year of services.
Document reproduction services	Rank Xerox	August 1997	Cost-effective provision of services as opposed to United Nations salary scales; turnkey services with external technical expertise; no equipment ownership and obsolescence issues	US$ 300 000	Rationale of outsourcing was successfully met	August 2000 for assignment of further contract cycle

Annex II (continued)

ACTIVITY OUTSOURCED BY ORGANIZATION	CONTRACTOR	CONTRACT EFFECTIVE DATE	REASON FOR OUTSOURCING	ANNUAL COST	COST SAVINGS AND OTHER BENEFITS	DATE CONTRACTOR WAS LAST EVALUATED
Maintenance of corporate information system	ICC Geneva	January 2000	Cost of staff employed; long-term staff obligations (pension, medical etc.); skills inventory; turnkey responsibility	US$ 800 000	Rationale of outsourcing was successfully met	Not applicable due to first contract cycle
OFFICE OF THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGESS (UNHCR)						
Global freight agreement	Kuehne and Nagel	01/01/2002	To have one global freight forwarder	US$ 5 000 000	Improved information, quicker delivery, less damages, less cost	November 2001
Air freight forwarder ex Geneva	Jetivia	01/01/2002	Need for separate air forwarder for air shipments ex Geneva	US$ 1 000 000	Improved delivery, tracking system, less cost	November 2001
Mail services	Swiss Post	01/01/2002	To cater for normal and express deliveries	US$ 260 000	Delivery as required, cost-effective	January 2002
Pouch services	UNOG	1997	To use a competitive United Nations postal system	US$ 250 000	Efficient delivery, less cost, quick delivery	January 2002
Cleaning services	ISS	01/01/2002	Building cleaning services that do not require employment of UNHCR staff	US$ 450 000	Effective services, no staff costs	01/01/2002
GRAND TOTAL: US$ 66 571 608						